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Commission assesses the 2000 Stability Programme for Greece (2000-2004)

The European Commission today adopted a recommendation to the Council of Ministers on the stability programme of Greece (2000-2004). The Commission concludes that the programme is in line with the requirements of the Stability and Growth Pact and the Broad Economic Policy Guidelines. The programme is based on a macroeconomic scenario assuming strong, investment-led economic growth; the Commission considers the macroeconomic projections of the programme as ambitious at the upper level of possibilities of the Greek economy. The government balance is projected to be in surplus of 0.5% of GDP already in 2001. The budgetary consolidation strategy of the programme in based, as in the past, on high primary surpluses and continuous reduction in interest payments; the government debt ratio is expected to decline by about 20 percentage points to 84% of GDP in 2004. A key element of the programme is the commitment to continue structural reforms. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the stability programme of Greece on [12 February 2001].

The Commission recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the Member States' stability programmes is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union and the important spill over effects that economic policies in one Member State can have for the euro-zone as a whole, the Commission will put increasing emphasis in its analysis on the degree of ambition with which Member States plan to conduct their economic policies over the short and medium term. An assessment of how Member States plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues included in our analysis."*

The Commission's main conclusions are the following:

- Greece submitted its first stability programme in December 2000, following Council decision on 19 June 2000 on the adoption by Greece of the single currency from January 2001.
- Economic developments in Greece in recent years have been characterised by strong economic growth, high investment and improving employment.
- Budgetary adjustment continued in 2000, supported by buoyant tax revenues; the general government deficit is estimated at 0.8% of GDP in 2000 as against 1.2% targeted in the 1999 updated convergence programme.

- The macroeconomic projections included in the stability programme, indicating strong real GDP growth, are considered as ambitious, at the upper level of possibilities.
- The strategy for budgetary adjustment of the programme is centred, as in the past, on high primary surpluses, but also on fast declining interest payments. High primary surpluses are necessary in order to reduce steadily the still high government debt ratio and prepare for future challenges, notably the budgetary burden form ageing population. A tighter control of primary expenditure with the aim of reducing the current expenditure to GDP ratio should be included in the budgetary adjustment strategy.
- Inflation prospects in the stability programme seem to underestimate the risks of overheating of the Greek economy, in a context of buoyant activity and easier monetary conditions. In order to counter possible inflationary pressures, budgetary policy might prove insufficiently tight.
- As a consequence, the Commission reiterates the recommendation already included in the Council opinion on the 1999 updated programme and the Broad Economic Policy recommendation for the adoption of clear and binding norms to secure current primary expenditure control.
- A number of structural reforms have already been introduced in Greece; recently, a labour market reform has been introduced, while a reform of the social security system was announced for 2001. The Commission takes the view that a bolder attitude in the reform effort would be beneficial for the Greek economy.

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries participating in the euro-zone to present stability programmes to the Council and the Commission. These programmes provide information on how countries intend to meet the objectives of the Pact and in particular the medium term goal of a budget close to balance or in surplus.

Key figures of the Greek stability programme

	2000	**2001**	**2002**	**2003**	**2004**
Real GDP growth (annual % change) (Alternative scenario)	4.1 (4.1)	5.0 (4.4)	5.2 (4.4)	5.5 (4.4)	5.5 (4.4)
Gen. Gov. budget balance (% of GDP)	-0.8	0.5	1.5	2.0	2.0
Government debt (% du PIB)	103.9	98.9	96.0	90.5	84.0
Primary surplus (% du PIB)	6.4	7.0	7.3	7.3	6.8
Inflation (Consumption deflator)	2.7	2.3	2.2	2.3	2.4
Employment (% change)	1.2	1.5	1.6	1.9	2.0
Unemployment rate (%)	11.3	10.4	9.5	8.4	7.5